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## Isolating Mechanism as a Mean to Improve Performance of SMEs

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**Abstract:**

*Entrepreneurship is a key factor determining the capability activities of the company. For small and medium firms, networking is considered as an important variable, particularly concerning the fact that the economic environment is becoming increasingly competitive and they are frequently having more dynamic environment uncertainty and limited resources to compete.*

*This study examines the effect of entrepreneurial orientation, isolating mechanism, quality of strategy as independent variables, and networking capabilities as an intervening variable on marketing performance of batik Small and Medium-sized Enterprises (SMEs) in Central Java, Indonesia.*

*The participants of this study were 160 owners and managers of batik SMEs. Data were collected using Likert scale questionnaire consisting of statements about variables. The data was analyzed using Structural Equation Modeling AMOS.*

*The findings of the study show the direct positive effect of entrepreneurial orientation and quality of strategy on networking capabilities and networking capabilities on marketing performance. This study discusses important managerial and future research implications of findings. The originality of this study lies on the consideration of isolating mechanism and quality of strategy in improving networking capabilities of SMEs.*

**Keywords:** *entrepreneurial orientation, isolating mechanism, quality of strategy, networking capabilities, marketing performance*

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## 1. Introduction

Business management nowadays demanded to be more responsive to change the paradigm of competition. Competition heightened among networks. In such situation, companies need the process of promoting value creation on ongoing basis to acquire wider business networks. Thus, the support is considerably necessary in improving the efficiency and effectiveness of internal business operations. Clark and Hammond (1997) emphasize that the concept of collaboration within a business network becomes an interesting issue in an increasingly competitive conditions of competition. This concept emphasizes on the freely flow of integration of information and material through the business networks to support continuous innovation and ultimately increase the company capability to meet the needs and desires of consumers (Lee and Whang, 2000; Vovchenko *et al.*, 2017; Theriou *et al.*, 2014).

Entrepreneurship is a key factor in determining the capability of the company and development activities emphasizing on higher level of innovation, organizational capability, and competitive advantage. In the macro level, entrepreneurial activity refers economic development activities supporting wealth creation and employment (OECD, 1998). Thus, entrepreneurship in such forms as the discovery and exploitation of favorable opportunities is able to boost economic growth at the macro level and to improve business performance (Covin and Slevin, 1991; Lumpkin and Dess, 1996; Keisidou *et al.*, 2013; Havlicek *et al.*, 2013; Halisek, 2016). Covin and Slevin (1991) also claims that the company having access to a variety of resources will be more entrepreneurial oriented than any other company.

However, in this context, the owners and managers of SMEs presumably have more complex tasks than those of larger organizations. Apart from having to face a more limited input, they also have to analyze how to protect the uniqueness of the product, and to impede competitors to imitate. Moreover, they also have to intensify their ability in managing internal resource such as setting price, product, technology, distribution, human resources, raw materials, management and skills. They tend to favor the development of the network in the form of a personal order to strengthen internal resources. Consequently, it is highly possible to exchange values and resources among parties in the network.

Accordingly, this study attempts to draw various theoretical perspectives to develop hypotheses that propose the effects of entrepreneurial orientation, isolating mechanism and quality of strategy as key antecedents of competitive networking and batik SMEs marketing performance. This research analyzes the sector of batik SMEs in Central Java. This research considered valuable to analyze the efforts undertaken by SMEs in managing entrepreneurial orientation, strategy, isolating mechanism, and establishing networking to achieve higher level of performance. Two approaches employed to study how SMEs manage the input and protect the product. The first approach is the theory of diversity of resources from Penrose (1959) assuming that

each company has a series of unique, productive resource bond. The second approach is the theory of resources-based values (RBV) from Barney (1991) arguing that companies having the valuable, rare, inimitable and unsubstitutable resources, has the potential to achieve a competitive advantage and superior performance (Barney, 1991). The resources used by a company supposed to be not able to move, assumed that some of the resources are inelastic or very expensive when duplicated (Barney, 2001). The originality of this study lies on the consideration of isolating mechanism and quality of strategy in improving SMEs' networking capabilities and the identification of this networking as a key variable in the performance of SMEs.

## **2. Literature Review**

### **2.1 Entrepreneurial Orientation**

Entrepreneurship refers to the process of doing something new and different to create well-being and benefits for company and larger society (Kao, Kao and Kao, 2002). Morris, Sexton and Lewis (1995) state that entrepreneurship refers to the process of value creation using a unique set of resources to obtain or exploit an opportunity. This process requires the occurrence of entrepreneurship event and entrepreneurial agent, associated with the conceptualization and implementation of a venture and its personnel. The entrepreneurial process contains the components of both attitude and behavior. Entrepreneurial attitude is related to the willingness of an individual or organization to embrace new opportunities and to take responsibility to influence the creative change, apparently termed with entrepreneurial orientation. While entrepreneurial behavior involves a series of activities necessary to define the concept of business, evaluate an opportunity, estimate the required resources and obtain the results of venture operations (Stevenson, 1996; Epifanova *et al.*, 2015).

Lumpkin and Dess (1996) distinguish the difference concepts between entrepreneurship and entrepreneurial orientation. Entrepreneurship is associated with players of new business and closely related to questions such as 'what kind of business will we undertake', while the entrepreneurial orientation is associated with the entrepreneurial process and is highly related to questions such as 'how do we make new business succeed' (Richard Barnett, Dwyer & Chadwick, 2004). From this definition, it is clear that the concept of entrepreneurial orientation is generally regarded as the first key points should be made by entrepreneurs. In short, Lumpkin and Dess (1996) consider the entrepreneurial orientation as the main processes and in terms of how business ventures should be executed, while the levels of entrepreneurship leads to decisions including 'what is executed' (Quince & Whittaker, 2003).

### **2.2 Competitive Networking**

A network referred to an act of close contact with other people or organizations and classified as human resources (Dollinger, Golden and Saxton, 1997). Hence, networking use as an alternative for organization in utilizing internal resources.

Networking is a variable considered important for all kinds of companies, particularly concerning to the fact that the economic environment is becoming increasingly competitive, allowing the company to improve capability of accessing the information, resources, markets and technology (Gulati, Nohria and Zaheer, 2000). Social network is an essential formation of the company for the company's success and continuity. Furthermore, information access and social networks considered crucial for the establishment, performance and sustainability of a company (Kingsley and Malecki, 1997).

Although all companies take part in a networking of both formal and informal, larger companies are more likely to make a long term cooperation and contract, while smaller ones in term of entrepreneurial companies tend to involve themselves in more private, mutual and reciprocal contract (Nupus, Setiadi and Soesanto, 2017). This informality eventually is able to improve company capability in acquiring technological learning and other organizational learning (Kingsley & Malecki, 1997; Zahra, Ireland and Hitt, 1998). Moreover, some resources including communicative environment and open flow information can enhance the process of innovation within an organization (Kanter, 1983; Rothwell, 1991). Many studies also have indicated that this kind of environment is able to ensuring innovation and development of a company (Isaksen and Smith, 1997).

According to Hakansson (1997), networking is important for companies in four areas. The first area is the managerial matter considered important for companies to establish a strategy dealing with other organizations. The second one is entrepreneurial activity. The third area is technology development in which a network can be exploited for enriching or even preventing organizational development. The last area is relationships between companies and customers. Such networks relying on personal contact and trust among individuals or organization can provide complementary resources and reduce the risk of opportunistic behavior and reduce transaction costs (Granovotter, 1985). System models of regional innovation subsequently developed to explain anything that could create a behavioral innovation among economic actors, managers and employees, marketing mix, and institutions. This system is also able to connect structural relationships to stimulate behavioral innovation (Braczyk, Cook and Heidenreich, 1996).

### **2.3 Quality of Strategy**

One focus of attention in the management aspect is the process of management system. While the development of strategy seen as a managerial process, the quality should be the most common concern in the managerial focus. This means that the

managerial actions expected to show a qualified process. Therefore, a strategy raised through a qualified process will produce a qualified strategy in anyway (Ferdinand, 2000).

According to Hardy, Phillips and Lawrence, (2003), Miller, Burke and Glick (1998), the strategic process is a series of commitment, decisions and actions required by the company to achieve competitive advantage. This process includes two forms of input and actions. The first form is strategic input derived from internal analysis, while the second one is strategic actions that is a prerequisite action to achieve the desired results. Effective strategic actions undertaken in the context of formulating and implementing integrated strategies will produce the desired strategic output (Hitt, Ireland & Hoskisson, 2001). Hunger and Wheelen (1996) state that strategic process includes some basic elements including monitoring the environment, formulation of the strategy, implementation of the strategy, evaluation, and control. Therefore, the strategic process used to match the continuously changing market conditions and market competition structure. This process ultimately needs an adjustment with the available company resources, capabilities and constantly changing strategic asset. Shortly, a strategic process shows how the strategy performed.

## **2.4 Company Performance**

Company performance refers to a multidimensional concept. Therefore, the relationship between entrepreneurial orientation and performance may depend on the indicators used to assess the performance itself (Lumpkin and Dess, 1996). Different indicators of performance are used in many empirical studies (Combs, Russell Crook and Shook, 2005; Venkataraman and Ramanujam, 1986) generally relying on the difference between the size of financial and non-financial indicators. The measurement of non-financial performance is also used to measure business objectives such as satisfaction and success rate in global scope that can be achieved by the owners or managers, while the measurement of financial performance is mainly used to measure financial factors such as sales growth and return on investment. Related to financial performance, there is frequently an occurrence of a low convergence among different indicators (Murphy, Trailer and Hill, 1996).

At a conceptual level, the experts distinguish between the measurement of financial and non financial indicators in terms of growth and profitability measurement. Although these concepts are empirically and theoretically interconnected, there are also important differences between the two (Combs, Russell Crook and Shook, 2005). For example, a business can make a large investment to support long term business growth.

However, it in fact has to struggle to get short-term profit. The initial conceptual framework of the relationship between entrepreneurial orientation and performance

focuses on the financial aspects of performance. This consequently emphasizes the important actions in the form of high entrepreneurial orientations such as targeting the premium market segment, setting high sale price, and occupying a superior market position capable to generate greater profits and more quickly expansion (Zahra and Covin, 1995).

### **3. Hypotheses**

#### **3.1 The Relationship between Entrepreneurial Orientation and Marketing Performance**

Entrepreneurial orientation is the key element in creating competitive advantage and company performance. High capability of entrepreneurship will increase innovation, initiate change, and flexibly respond to constant changes (Naman and Slevin, 1993). Entrepreneurial orientation also has a relation with the naturalness of managerial work. This naturalness has long been studied (Hortoványi and Dobák, 2009). Mintzberg (2003), for example, concludes that managerial work is conducted from a series of activities. Thus, managers should demonstrate these activities in a way that is predictable and vary depending on social identity and their role.

Consequently, the difference between the entrepreneurial managers and administrative managers can be traced back to the expectations of their role. One method used to direct questions about entrepreneurial management practices is to clearly look at the role of entrepreneurship. Hortoványi and Dobák (2009) suggests that in order to understand this phenomenon more deeply, hypotheses should be formulated based on the role of entrepreneurship.

The starting point is on the model suggested by Timmons (1994), proposing that the entrepreneurial process is driving the emergence of opportunities, directed by a group of entrepreneurs, and characterized by efficient resources. Furthermore, Hortoványi (2009) suggests that entrepreneur managers are formally committed to exploit the existed opportunities, needed to overcome the high gaps of resources. Moreover, in the end, they need to move forward the initial, compact core team if they would overcome the differences of these resources.

In the context of the effect of entrepreneurial orientation on marketing performance, previous studies have revealed different results in analyzing the relationship between entrepreneurial orientation and performance. Covin and Slevin (1986) report the correlation between entrepreneurial posture defined as taking a risk, product innovation, proactive attitude or aggressiveness of top management and performance. On the other hand, Covin and Slevin (1989) find that the strategic posture have no significant effect as an independent predictor on company performance. Zahra (1991) finds a positive relationship between entrepreneurial orientation and profitability and growth. Smart and Conant (1994) report that

entrepreneurial orientation and performance has a significant relationship. Covin, Slevin and Schultz (1994) find no correlation exhibited significantly. Zahra and Covin (1995) report a significant relationship.

*H1: There is a positive effect of entrepreneurial orientation on marketing performance.*

### **3.2 The Relationship between Entrepreneurial Orientation and Competitive Networking**

The entrepreneurial managers show simple stunning confidence levels in the process to get opportunities. The confidence appears with the assumption that if there is an imperfection in the role, managers will soon be able to overcome. Moreover, with the hope that the obtained results through a search of opportunities, it is necessary to improve the efforts in term of investment and short-term loss in nature. To sum up, entrepreneurial commitment is characterized by the determination to achieve goals and being persistent in looking for an opportunity. Hence, relational capabilities mean that the company is active and better in the interaction with business partners and is able to understand the specific information relating to the relationship and benefit by collecting data to acquire wider opportunities. Another common feature in the relational abilities is the development of the company's ability to communicate, collaborate and organize a mutually beneficial business relationship (Day and Van den Bulte, 2002; Dyer and Singh, 1998; Paulraj, Lado and Chen, 2008).

Several studies have demonstrated the effects of internal and external environmental factors on the entrepreneurial orientation and firm performance using contingency models (Dess, Lumpkin and Covin, 1997; Zahra, 1993) and model configuration (Wiklund and Shepherd, 2005). However, up until now, the process of linking the entrepreneurial orientation with external and internal environment to exploit, to identify entrepreneurial opportunities, and to enrich the performance has not been well understood. Relational ability mainly focuses on quick access to information to support new initiatives, new projects and achievements of competitive advantage (Combe and Greenley, 2004; Fahy *et al.*, 2000; Lorenzoni and Lipparini, 1999; Weerawardena and O'Cass, 2004).

This ability attempts to communicate some aspects including the target market, best approach to maintain customers, creation of greater satisfaction of customers and method establishment to build strong customer loyalty. Relational capability found to play a key role in increasing the volume of sales or profits, gaining access to new markets, and fostering innovation (Ritter and Gemunden, 2003). This capability can enhance innovation and co-creation values with customers. The higher level of relationship to co-create value between the companies and customers acquired through cost benefit or revenues, new competencies and risk sharing (Ngugi *et al.*, 2010).

*H2: There are positive interaction between entrepreneurial orientation and competitive networking.*

### **3.3 The Relationship between Isolating Mechanism and Networking Capabilities**

The result of company innovation expected able to improve the efficiency, and overall company performance. In such context, entrepreneurship will not be justified to spread the innovativeness as the main advantage of company to competitors. The term to describe specific barriers of mobility is called isolating mechanism (Rumelt, 2005). Furthermore, Rumelt (2005) state that entrepreneurial activity will be encouraged if the appropriability is low and isolating mechanisms are high. This mechanism aims to make others unable to imitate and substitute particular products, resources, capabilities and strategies of a company (Shane and Venkataraman, 2000; Hoopes *et al.*, 2003; Li and Tsai, 2009). The company can make barriers of their own capability in terms of knowledge, physical, or legal barrier that may prevent replication (Lepak, Smith and Taylor, 2007).

Another noticeable feature of isolating mechanisms is the minimization of value exchange. The value is supposed to be different among company levels of analysis, which in turn make particular company is able to distinguish the product or service from others (Lepak, Smith and Taylor, 2007). Thus, the isolating mechanism appears to be continual efforts by firms to maintain their privileged innovation (Knott, 2003).

Zahra and George (2002) state that the firm's potential and realized capacities can differentially influence the creation and sustainability of its competitive advantage in terms of networking. Oliver (1997) states that homogeneity of organizational resources when supported by isolating mechanisms is a determinant for the sustainable competitive advantage. Regarding the positive influence of isolating mechanism on networking capabilities, Watson (2007) suggests that successful business ownership might depend on the firm's ability to access resources that are not under their control in an effective way through networking.

*H3: Isolating mechanism positively influences networking capabilities.*

### **3.4 The Relationship between Quality of Strategy and Marketing Performance**

Menon, Bharadwaj and Howell (1996), Ferdinand (2000) explain that the increase in performance determined by the company's business strategy. The strategy is an overall plan describing the competitive position of a company (Quinn, Mintzberg and James, 1991). Strategy as a collection of methods used to develop, produce and sell real products or services (Porter, 1996). Organizational strategy is a pattern of decisions in relation to the important materials used to be the guidelines for the organization in facing the dynamic environment, to influence both internal organizational structure and processes, and to affect the organizational performance .



The quality of strategy is a strategy built with the planning, implementation and evaluation of qualified strategy (Menon, Bharadwaj and Howell, 1996).

The basic concepts used are SWOT (Strength, Weakness, Opportunity and Threat) analysis as the antecedent of a deep process of strategy formulation to situation. This analysis used to determine the strategic position of the instruments of strategy used (Ferdinand, 2000). The result of the analysis can be the basis of reference in analyzing the position of strategic advantage of the respective areas of the company. Hence, the analysis of various trends in the present and future is a starting point for the strategic planning process. The issue analysis including the concepts of business, environmental analysis and resource analysis will affect the development of the strategy.

*H4: Quality strategy positively affects the marketing performance.*

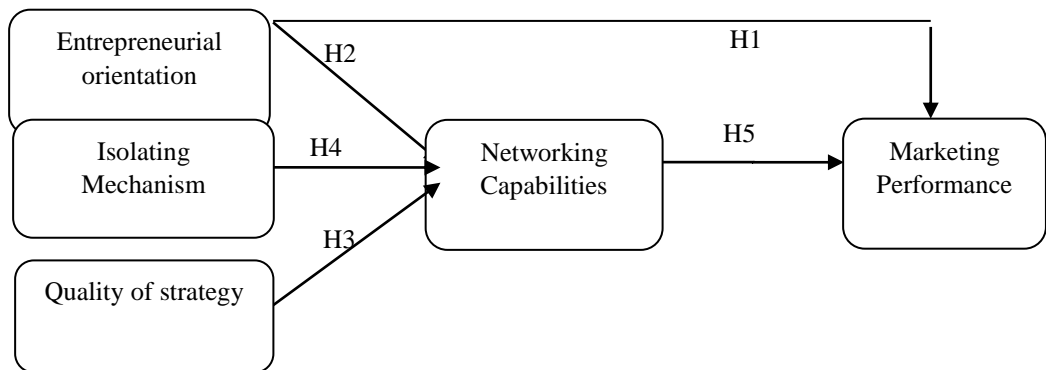
### **3.5 The Relationship between Competitive Networking and Marketing Performance**

Networking includes any form of relationships including hidden and active relationships. This includes how people organize and define these relationships, either consciously or unconsciously in a variety of ways to reflect the needs (Jack *et al.*, 2008; Jack, 2010). This reflects that network within the creative industry is an effort in achieving business goals as a reflection on the needs of business continuity vertically and horizontally. Many have revealed that entrepreneurial orientation have consequences on the performance of the company (Lee and Peterson, 2000; Nelson and Coulthard, 2005; Lumpkin and Dess, 1996; Wiklund, 1999; Smart and Conant, 1994; Covin and Slevin, 1989). Slater and Narver (1994), Lee and Tsai (2005) reveal an insignificant relationship between entrepreneurial orientation and firm performance. The results show that the orientation is an important factor in explaining the company performance (Coulthard, 2007). In this inconclusive finding, many have tried to analyze the factor contributing to strengthen this relationship, such as business relationship or networking (Madsen, 2007).

*H5: Networking capability positively influences the marketing performance.*

## **4. Conceptual Model**

This study briefly examined the direct and indirect effect of entrepreneurial orientation on competitive networking and marketing performance. Furthermore, the study also examined isolating mechanism and quality of strategy as the determinants of networking capabilities. Therefore, generally, this study presumed the research model, linking the direct effect of entrepreneurial orientation on networking capabilities and marketing performance. Moreover, entrepreneurial orientation linked indirectly on marketing performance through networking capabilities.

**Figure 1. Research model**

## 5. Research Method

### 5.1 General Overview of Batik SMEs in Central Java

Batik in Central Java centers in Surakarta, Semarang, Pekalongan, Rembang and Klaten. In addition, there is at least a batik business in each city and county. Central Java is the most popular for batik because there are 6.187 batik SMEs capable of absorbing from 2 to 24,700 workers. The production capacity to produce silk batik of handloom batik is 3,742,300 pieces a year, while cotton batik is produced up to 4,986,250 pieces a year. Most of the SMEs are batik combination of stationery and stamp or a combination of manual writing and printing. Approximately 487 SMEs considered as pure or original batik producers.

Marketing conducted by SMEs to meet domestic demand. There is an increasing demand of *batik* to export to some destination countries, such as Malaysia, Japan, Singapore, Brunei, and several European countries. Usually, batik displayed in several well-known galleries such as in Semarang, Surakarta, Pekalongan, and Rembang. Each gallery presents a unique batik model. The price of batik artisans in batik centers is particularly cheaper compared to other regions. The batik quality in each center is different depends on the quality of the material. The price of batik from Central Java is also especially competitive compared to other regions. As a comparison, the price of a piece of super silk cloth range only from Rp. 350,000 to Rp. 500,000 (26-38 USD).

Central Java provincial government has conducted some assistance and guidance for batik artisans. Starting from the region capital of Semarang, the equipment and several necessary trainings to improve the quality of batik are distributed. Marketing aspects are also assisted through various exhibitions facilitated by the government. The government also established some batik trade centers such as

Solo Trade Centre, and Pekalongan Trade Centre as a form of marketing and trading assistance of superior products of Central Java.

## **5.2 Design and Approach**

This research mostly identified the role and characteristics of the entrepreneurial orientation of owners/managers of batik SMEs and the development of networking capabilities. This study tested a theoretical model to identify the factors contributing to networking capabilities and explored its effect on marketing performance. The case study method adopted to examine the generative mechanisms and processes of networking capabilities. For this reasons, the research carried out in SMEs of batik that established more than 30 years. The questionnaires used to determine the effect of entrepreneurial orientation, isolating mechanism and quality of strategy on competitive networking and marketing performance.

## **5.3 Sampling**

Ferdinand (2002) suggested that appropriate sample size in SEM analysis is a minimum of 100 or by using the minimum ratio of five observations for each parameter's estimation. The numbers of estimated parameters in this study was 31 meaning that the minimum number of samples was 155. This study used 160 respondents of owners and managers of batik SMEs in the Province of Central Java. The testing result for normality of univariate and multivariate data in this study showed the value of  $CR = 2.58$ . Based on the output of Mahalanobis distance, it is known that there are four observations indicated as outliers. In this study, however, the indication of outliers was not removed in subsequent analyzes, because of no particular reason for the profile of respondents allowing the observations to be excluded from the analysis.

## **5.4 Measurement**

The study used three independent variables including entrepreneurial orientation, isolating mechanism and quality of strategy. The variable of networking capabilities utilized as the intervening variable examined as the antecedent of SMEs' marketing performance. This study adopted dimensions of entrepreneurial orientation from Lumpkin and Dess (2001). This variable was measured using 9 items including supporting on innovation, emphasizing on experiment approach, using new technology, initiating on new project, anticipating on change of market demand, seeking information aggressively, entering new market actively, launching new product, and implementing new strategy.

Networking capability dimensions adopted from Haris and Wheeler (2005). The variable was measured using 5 dimensions including strengthening relations, improving partner knowledge, breaking relations problems, developing relational skills and strengthening networking coordination. The isolating mechanism variable

measured using six items categorized into two groups including the ability to make uniqueness product and the inability of others to imitate the company strategy. This scale developed by Ferdinand and Batu (2014).

Quality of strategy measured using four items developed by Ferdinand (2002) including quality of strategy planning, implementation, evaluation, and quality of company environment management. Finally, marketing performance measured using the scale from Matsuno and Mentzer (2000) including growth of sales, market share, and new customer.

## 5.5 Data Analysis

The variable questions comprising each factor measurement used ten-point Likert scale (1 = strongly disagree to 10 = strongly agree). Data analysis used to simplify the data making it easier to interpret. A structural equation model using AMOS applied to test the research model. SEM testing examined the validity and reliability of research instrument, confirmed model, and simultaneously tested the influence between variables. To test the hypotheses, the study analyzed the value of CR and P compared to the required statistical limit, i.e.  $\pm 1.96$  for  $\alpha = 0.05$  and 2.85 for  $\alpha = 0.1$ . If the testing meets these requirements, then the hypothesis will considered acceptable.

## 6. Findings

### 6.1 Testing of Goodness of Fit

Confirmatory factor analysis explained the measurement of the latent variables in the research model. This empirical research model used four unobserved latent variables and fourteen observed variables or indicators. As shown in Table 1, the testing of goodness of fit showed that the value of probability = 0.002, CMIN/DF = 1.294, GFI = 0.901 above the cut off value, TLI = 0.969, CFI = 0.972, RMSEA = 0.036. The test resulted AGFI = 0.877, meaning that the data was classified as marginal fitness. Accordingly, the developed structural equation was considered fit.

**Table 1.** *Measurements of Quality of Fit*

Goodness of Fit Index	Cut Off Value	Result	Note
Probability	> 0.05	0.002	Fit
GFI	> 0.90	0.901	Fit
AGFI	> 0.90	0.877	Fit (marginal)
TLI	> 0.95	0.969	Fit
CFI	> 0.95	0.972	Fit
CMIN / DF	<2.00	1.294	Fit
RMSEA	<0.08	0.036	Fit

## 6.2 Hypothesis Testing

As shown in Table 2, the analysis hypothesis testing showed the positive and significant effect of entrepreneurial orientation on networking capabilities and of the quality of strategy on networking capabilities, indicated by the value of CR = 4.041,  $p = 0.001$  and CR = 3.666,  $p = 0.001$ , respectively. Furthermore, there was also a positive and significant effect of networking capabilities on marketing performance, indicated by the value of CR = 1.409,  $p = 0.001$ . Thus, these results confirmed that H1, H3, and H5 were accepted.

**Table 2.** Testing results of statistical regression weight

			Estimate	S.E	C.R	P
Networking Capabilities	<---	Entrepreneurial orientation	0.328	0.081	4.041	***
Networking Capabilities	<---	Isolating Mechanism	0.087	0.075	1.160	0.246
Networking Capabilities	<---	Quality of strategy	0.272	0.074	3.666	***
Marketing Performance	<---	Entrepreneurial orientation	0.146	0.079	1.842	0.066
Marketing Performance	<---	Networking capabilities	0.987	0.095	1.409	***

**Note:** \*\*\*,  $p < .05$ ; S.E = standard estimate, C.R = composite reliability;  $p$  = significance level.

However, the remaining hypothesis could not confirm as acceptable in this research. The testing of the effect of isolating mechanism on networking capabilities resulted the value of  $p = 0.246$ , higher than significance level of 0.05, the value of CR = 1.160. Finally, the result of testing of hypothesis two showed an unexpected positive and insignificant effect of isolating mechanism on networking capabilities, suggesting the contrary to the hypothesis, meaning that isolating mechanism positively and insignificantly affects the networking capabilities. Similarly, the effect of entrepreneurial orientation on marketing performance was confirmed as not significant, indicated by the value of  $p = 0.066$ . It concluded that there was inadequate empirical evidence to accept the hypothesis. Thus, hypothesis four stating that there is a positive effect of entrepreneurial orientation on marketing performance in the batik SMEs in Central Java is rejected.

## 7. Discussion

The results of the data analysis support the notion that entrepreneurial orientation through mediating variable of competitive networking has positive implication on marketing performance improvement. Thus, competitive networking is able to strengthen the relationship between entrepreneurial orientation and marketing performance. The testing clearly shows that every effort is possible to get the

benefits of running the orientation of entrepreneurs. In other words, entrepreneurial orientation affects the output of the managers and owners of batik SMEs in Central Java. Moreover, entrepreneurial orientation effect on the performance of SMEs batik will be greater if supported by competitive networking. These findings support the previous studies stating that the entrepreneurial orientation dimensions in terms of innovativeness, risk taking, and pro-activeness has important effect in explaining the increase of marketing performance, especially of batik SMEs in Central Java. Based on the statistical testing, shown that the highest value to improve the marketing performance of batik SMEs in Central Java comes from the influence of competitive networking.

These findings have several practical implications. The most important implication is that there is a fundamental option for batik SMEs to expand their business through more integrated channels, by utilizing their own resources and external intermediaries to improve the quality of competitive networking. This means that the indicators contained in the variable of competitive networking have a considerable effect on improving the marketing performance of SMEs. The indicator of social networking will have a considerable effect on the behavioral commitment to support the financial investment, information and non material aspects. Furthermore, the indicator of company networking is able to support a good relationship with other SMEs and large enterprises, while the indicator of supporting networking is likely to encourage higher level relationships of SME with supporting parties such as banking industry, government and non-governmental organizations. The competitive networking of SMEs can be utilized to especially increase sales growth, profitability, customer satisfaction and quality of goods and services.

On other hand, the insignificant effect of the relationship between isolating mechanism and networking capabilities becomes an interesting matter to discuss. According to Shane and Venkataraman (2000), the concept of isolating mechanism undertaken purposively to make other companies unable to imitate and substitute a particular company's product. In batik SMEs, however, some prerequisite conditions for making product uniqueness seemingly not fulfilled. First, the concentration of batik SMEs in Central Java are not located in one location, creating high competitions among producers. Batik SMEs spread in many towns with their own characteristics and designs such as Surakarta model, Semarang model, Pekalongan model, etc. Second, the resulted batik is probably because of the different type of materials in batik production such as batik silk, cotton and handloom. Third, it has to be additional focus that most of batik SMEs has different types of production such a combination of batik and stamp, or a combination of manual writing and printing. In addition, it is worth noting that the non-existence of isolating mechanism in the context of batik SMEs arguably lies on the role of Central Java government in spreading the cultural designs and characters of batik among producers. This can emerge the opinion that no single owner can claim that one batik model as his/her own. This explanation is in line with Lepak, Smith and Taylor (2007), stating that in

such a condition there is no isolating mechanism as any knowledge, physical, or legal barrier that may prevent replication can established and produce similar product of the competitors independently based on a firm's resources or capabilities. These barriers do not necessarily exist in batik SMEs in Central Java, since isolating mechanisms require no exchange value among companies as the main term (Hoopes, Madsen and Walker, 2003).

## **8. Conclusion**

This study has confirmed that entrepreneurial orientation through networking capabilities indirectly determines the marketing performance of SMEs. The development of networking capabilities is likely to promote marketing performance. Thus, firms enjoying networking capabilities will be better place to dedicate the efforts to marketing performance. This study concludes that entrepreneurial orientation is likely to improve the performance of batik SMEs in Central Java. The relationship between entrepreneurial orientation and SMEs performance will be in higher capacity if it is strengthened by the improvement of competitive networking.

The study also provides evidence that entrepreneurial orientation and quality of strategy positively contribute to networking capabilities. However, the study confirms that there is no direct influence of entrepreneurial orientation on marketing performance and of isolating mechanism on networking capabilities. In this context, this study encourages the entrepreneurial managers to consider proactive measures as a part of the exploitation of business opportunities. Furthermore, the managers expected to achieve distinctive networking capabilities that reached by improving innovativeness as main determinant of entrepreneurial orientation and by enhancing quality of strategy. The improvement of these variables will create better capabilities in networking. In addition, each batik SME should consider themselves to be the first in introducing product or service, administrative, systems, and new methods of production.

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